TRS MEMBERS' NEWSLETTER

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2001 TRS Retirement Legislation

HB 97 – Generally Revise TRS Retirement Laws – Sponsor: Rep. Dave Lewis Each legislative session, the Teachers' Retirement Board submits "housekeeping" legislation intended to make general revisions to the laws governing the system to clarify benefit provisions, make the law easier to understand, and/or bring the system into compliance with changes in federal laws or court decisions. The highlights of HB 97 include clarification of membership eligibility for part-time teacher's aides and school clerks or business officials, and simplifying the calculation of the maximum a retiree may earn if they return to teaching in Montana.

Effective March 16, 2001, on the first day of employment, a part-time teacher's aide must be given the same option to elect membership under the Teachers' Retirement System that is currently offered to substitute teachers. Once a part-time teacher's aide elects to be a member of the Teachers' Retirement System, they must remain a member during each ensuing school year regardless of the number of days or hours worked in any school year, so long as they remain employed as a part-time teacher's aide.

If a teacher's aide elected not to participate in TRS and later became a member, they would be allowed to purchase any service that was not reported, provided they contribute the employee and employer contributions that would have been contributed, plus interest.

This bill also makes it clear that school district clerks and/or business officials are not eligible for membership under TRS. However, persons currently holding these positions who, for whatever reason, are members of TRS will be required to remain members of TRS for as long as they continue to be employed in the position of school district clerk or business official. If members employed in these positions retire and are reemployed as a district clerk or business official, they will be subject to the part-time employment and one-third earnings limitations under 19-20-804, of the Teachers' Retirement Act.

Effective July 1, 2001, the maximum a retiree may earn in a part-time teaching position will be increased each year by the rate of increase in the Consumer Price Index (CPI) in the preceding calendar year.

HB 294 – Authorize Retirement Board to Increase GABA; Increase Minimum Benefit – Sponsor: Rep. Dave Lewis House Bill 294 authorizes the Teachers' Retirement Board to increase GABA from 1.5% to a maximum of 3.0%, as long as the amortization period will not exceed 25 years. This proposal also provides for a minimum benefit as of July 1, 2001, of $600.00 per month if the member retired with 25 or more years of service and as of July 1, 2001 is receiving less than $600.00 per month.

The first opportunity the TRS board will have to increase GABA will be on January 1, 2002. Based on the most recent actuarial valuation of July 1, 2001, GABA may increase from 1.5% to as high as 1.94%. The Board will reevaluate the condition of the system when they meet in November 2001, and make a final decision at that time regarding increases for January 2002. Thereafter, following each biennial actuarial valuation the Board, at its discretion, may increase GABA to a maximum of 3.0% provided adequate funding is available.

Market conditions and additional benefit enhancements will ultimately determine when and how much GABA will increase.

With the improvements in GABA and increased life expectancies, effective July 1, 2001, the actuarial cost to purchase service will increase. Also, employee and employer contribution rates on termination pay will increase for all members retiring after July 1, 2001. New tables will be available in July.

INCREASE YOUR RETIREMENT "STASH"

To plan for a dignified retirement, it is necessary to develop a strategy for estimating the cost of a comfortable lifestyle in retirement. Coming up with the magic sum that a person will require to satisfy

retirement needs is a very personal thing – a blend between a current life, with its accustomed comforts, and the new interests one intends to pursue in retirement. Start with a checklist of possible retirement activities. Then assess whether the prominent activities would call for more or less money than present requirements.

Once a desired future is envisioned, it is easier to determine needed retirement income relative to present income. Financial planners estimate that the average retired couple needs an income equal to 80% of their pre-retirement income to maintain the same lifestyle they had in their working years. Your Teachers' Retirement pension benefits and Social Security payments may not be sufficient to produce that amount. Retirement planners agree it is prudent to plan ahead, taking into account the retirement one envisions and allow for personal savings.

There is no limit to what might be possible for anyone in retirement but lack of financial planning can surely be a limiting factor in the quality of life a retiree experiences. PLAN AHEAD AND PLAN WISELY!

ARTIFICIAL SALARY INCREASES DETRIMENTAL TO RETIREMENT SYSTEM

It has been brought to our attention that some school districts have written additional payment or artificial increases into their salary schedules for employees who reach retirement age and/or service criteria.

To give you an idea of how this practice could harm the retirement system, consider the following example. A final average salary of $40,000.00 for a 30-year teacher will produce $500,000.00 in benefits over his/her retired life of about 25 years. If an artificial increase of $3,000.00 is added to the salary in each of the last three years, at the end of the 30-year career, the lifetime benefit would be increased to $537,500.00 or an additional $37,500.00 would be removed from the retirement system funds. The difference would be even greater if future cost of living increases were considered. If the TRS member received a "retirement incentive," at the time of termination and retirement, the TRS regulations allow the member to elect to include the incentive in the calculation of average final compensation, provided the member and their employer contribute the actuarial cost to fund the resulting benefit increase. Since this example did not include a retirement incentive, the payments would jeopardize future resources for all TRS members because the payments artificially increase retirement benefits for which the system does not receive adequate funding.

How could the actions of a few harm all TRS members? The actuarial assumptions used to calculate the TRS contribution rate assume a fairly level increase in salaries over an employee's working career. If unusually large increases are added just prior to retirement, the career contributions of an employee and their employer will not be adequate to fund the artificially increased benefits. If enough members received artificial salary increases, future benefit increases may not be a possibility or the contribution rates (the amount you and your employer contribute to the system) may have to be increased.

If you suspect that a TRS member is receiving artificial salary increases with the intent to increase their retirement benefits, please call the Teachers' Retirement Office at (406)444-3134.

RETIREMENT PLANNING IS CRITICAL FOR WOMEN

According to the 1998 Women's Retirement Confidence Survey, 40% of women have put away nothing for retirement. Women often put off retirement planning because they are too busy or think they don't have any money to save. Or they believe a husband, parents, employer, or even the government will come to the rescue. Think again – women are 60% more likely to spend retirement in poverty according to 9 to 5, an organization for working women in Milwaukee.

Women face several retirement planning challenges:

- Women live six to seven years longer than men.
- Women earn only 75 cents for every $1.00 a man earns.
- Women spend seven to 11 years out of the work force, caring for children or aging parents. This lapse in work results in lower Social Security payments and lost pension money.

Here are four areas that women can act on immediately:

1. Social Security. Request an earnings statement to find out how much you can expect to receive. Benefits are based on your top 35 years of earnings; missing years count as zero – so keep working, even part-time if possible.

2. Employer Pensions. If you've been in the work force, evaluate the retirement income you'll receive from your pensions. If you must leave a job, make a serious effort to contribute the maximum amount allowed to an IRA every year to make up for lost pension money.

3. Investments. Review your portfolio. Can you be more aggressive in your investments? Learn more about investing through an investment club, free seminars, or classes in your community.

4. Individual Retirement Accounts. IRA savings can make the difference between a comfortable retirement and one spent in poverty. Budget for a contribution every month.

Stay-at-home moms especially need retirement planning. A recent change in the tax law allows nonworking spouses to contribute up to $2,000 a year to an IRA.

ARTWORK NEEDED

The Teachers' Retirement System office will be moving our board meeting room to a different location within our building. We would like to display works of art created by TRS members.

Space will be allotted for the artwork and it will be displayed on a rotating basis. Artwork will be displayed for one year. At the end of the year, we will return the artwork to the artist. If you have a piece of artwork that you would like considered for display, please send a color photograph to:

Teachers' Retirement System
Art Selection Committee
P O Box 200139
Helena MT 59620-0139

Delivery of the artwork to the Teachers' Retirement System and retrieval of the artwork after the display period will be the responsibility of the artist. This program will begin July 1, 2001.

IS PENSION MAXIMIZATION RIGHT FOR YOU?

Adapted From National Preretirement Education Association Newsletter, *Options*

Public pension system members approaching retirement will very likely hear about an insurance product known as a "pension maximizer." In considering such a product, the issue is the choice between the single life and joint-survivor options offered by pension systems.

As couples consider which plan to choose, they are sometimes advised by insurance agents and financial planners to take the higher-paying single life annuity, which eliminates benefits for the surviving spouse. To provide for the survivor, the advisors suggest that the couples purchase an insurance plan. To fund the plan, the advisors recommend that couples use the difference in income between the single life annuity and the joint survivor annuity to pay for the insurance premium.

Whether the pension maximizer will be right for you depends on many factors, often not addressed by the financial advisor. Consider the following:

- The pension maximizer is promoted as providing more income while the retiree is alive. Often, though, the insurance premium that would provide an amount needed to duplicate the joint-survivor option costs as much as the reduction experienced under the TRS joint-survivor plan.

- TRS pension benefits for the retiree and beneficiary are guaranteed by Montana law.

- Future annuity income from the insurance product depends on interest rates. If rates fall, the amount of future income available falls.

- Under an insurance product, the survivor often receives a lump sum at the retiree's death. This means that shortly after the death, during a time of emotional turmoil and often while dealing with his or her own poor health, the surviving spouse could be required to make investment decisions that will affect his or her benefits for life.

- The combination offered by the TRS joint-survivor annuity of a lifetime guarantee and having no future investment decisions provides a peace of mind that insurance may not provide.

- The insurance plan is often promoted as offering greater flexibility to change decisions in the future. Although one can't guess who will die first, under the TRS pension joint-survivor options a surviving retiree could return to a full Normal Form benefit if their beneficiary precedes them in death.

- With the insurance choice, the spouse loses any cost of living increases provided by the retirement system.

- Rates for traditional whole life and universal life policies should be compared. If interest

rates earned by the insurance company are lower than projections or expenses are higher, universal insurance premiums will rise.

- The survivor could end up with lower income than expected if interest rates are low at the time of the retiree's death; e.g., a fixed death benefit would buy an annuity with considerable smaller monthly payments if interest rates averaged 5% rather than 10%.

In addition, all comparisons should be done on the same tax basis.

THE INFORMATION CONTAINED IN THIS ARTICLE HAS BEEN PROVIDED AS ASSISTANCE. IT IS NOT MEANT TO BE CONSTRUED AS ADVICE. PLEASE CONSULT WITH YOUR LEGAL OR FINANCIAL ADVISOR TO DETERMINE THE APPROPRIATENESS OF THIS ARTICLE FOR YOUR PARTICULAR CIRCUMSTANCES.

APPLYING FOR SOCIAL SECURITY BENEFITS

The Social Security Administration prefers that participants make an appointment and apply for benefits in person. The toll-free number to call for an appointment is 1-800-722-1213. Application for benefits should take place approximately three months before they are expected to start. In order to apply, the participant will need:

- His/her Social Security card or a record of the Social Security number.
- Proof of age. It is best to have a birth certificate or baptismal certificate dated shortly after birth, but other records can also be used.
- W-2 forms, if any, for the past two years (and, if self-employed, tax returns and proof of filing, such as canceled checks, for those years). These are critical in computing accurate benefits because this information is probably not yet available in Social Security's records.
- Information about the participant's account at a bank or other financial institution (e.g. a personal check, passbook or statement) is essential for direct deposit.

Other documents may be necessary. The Social Security Administration can provide more details when the participant calls for an appointment. A personalized benefit estimate can be requested from Social Security by using IRS form 7004-SM, or from their website at www.ssa.gov.

Additional questions regarding Social Security benefits should be referred to Social Security's toll-free number (800-772-1213) or your local Social Security office.

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DON'T FORGET – Keeping your beneficiary information current and complete is essential to making sure that your Teachers' Retirement System benefits will be paid in accordance with your wishes.

TRS should be advised of any changes in your home mailing address, including zip code updates. Change of address information must be submitted in writing and include your signature.

OUR BOARD MEMBERS

Jima Severson, Chair
Tim Ryan, Vice-Chair
Emily Hall Bogut
Scott Dubbs
Virginia Egli
Jim Turcotte

The Teachers' Retirement System Board has six positions – two public members, one retired member, two active members and one active classroom teacher member. The Governor's Office is responsible for appointing the Teachers' Retirement Board.

Anyone interested in applying for positions on the TRS Board should contact the Governor's office for more information.

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